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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 002668

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SUBJECT: GOI TELLS SECRETARY BODMAN THEY ARE PUSHING FOR
HYDROCARBON LEGISLATION BY YEAR'S END

Classified By: Charge d'Affaires Margaret Scobey for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: In a series of separate meetings July 18, Prime Minister Maliki, Deputy Prime Minister Barham Saleh and Minister of Oil (MoO) Shahrستاني stressed to visiting U.S. Energy Secretary Bodman that the GOI intends to adopt foreign investor-friendly hydrocarbon legislation by year's end. Shahrستاني asked for USG support to encourage the Kurds to participate in a central hydrocarbon strategy instead of signing individual contracts to develop resources in Kurdish provinces. Security for Iraq's energy infrastructure was the other running theme. MoO Shahrستاني claimed that, despite Iraq's decrepit infrastructure, MoO could produce three million barrels per day (BPD) if the country's pipelines could be secured. In a separate technical-level meeting, MoO officials also stressed security concerns and requested that technical advisors be co-located in MoO facilities to both train and assist with repairs. They requested creation of a fund of "several million dollars" to purchase relatively inexpensive, but essential parts inadvertently not included in project contracts. END SUMMARY.

Security is Issue Number One

¶2. (C) In a series of separate meetings July 18, Prime Minister Maliki, Deputy Prime Minister Barham Saleh and Minister of Oil (MoO) Hussein Shahrستاني told visiting Energy Secretary Bodman and the Ambassador that Iraq's number one issue is security. Despite aged equipment and infrastructure, Iraq could be producing three million barrels per day (BPD) "right now," Shahrستاني said, only poor security stands in the way. The Ministry of Oil (MoO) can protect installations, but is not able to secure linear infrastructure. As an example, Shahrستاني said that each of the last three repair teams he had sent out to make repairs on the northern export lines in the north had been attacked. Moreover, he noted that the Iraqi Army has no mine detectors to clear explosive devices and allow the repair crews access to sites. Shahrستاني asked for Coalition assistance in sweeping access routes or in provision of and training on mine-sweeping equipment.

Hydrocarbon Law in Place By Year's End

¶3. (C) The GOI intends to submit draft hydrocarbon legislation to the Council of Representatives (CoR) within three months, with a goal of passage by the end of 2006. Shahrستاني intends to "consult widely" during the drafting, but will not allow the perfect to be the enemy of the good

before submitting a draft. In points reiterated by the PM and DPM later in the day, Shahrستاني said the GOI strongly favors a policy that will promote Iraqi unity, with all revenue going into a single, central GOI repository. The GOI also intends to encourage foreign investment in Iraq's energy sector. Secretary Bodman agreed that oil policy should be a unifying factor and urged Shahrستاني to stick to his time frame for adopting the legislation. He promised U.S. support once Iraq decided on a specific approach to its oil sector.

14. (C) Shahrستاني said that, according to his current thinking, the law would not limit the types of agreements MoO could enter into with international oil companies (IOCs), saying that this would vary with circumstances and specific fields. Shahrستاني said that of the 500 or so known fields in Iraq, only 20 are producing, with exploratory wells dug in another 80. He added that Iraq would eventually have some 400 producing wells -- "more than any oil company can handle." Shahrستاني said that there was general agreement within the GOI that oil revenue "for the next 5-10 years" should be devoted to developing the country's infrastructure. He proposed revisiting the discussion whether to deposit some portion of Iraq's oil revenue in what he called a "fund for the future" in five years or so.

15. (C) Once legislation is in place, Shahrستاني said that an energy committee, a national body to be composed of representatives from the Ministry of Oil, the Kurdish Ministry of Natural Resources, and various experts, would set national oil and gas development priorities. While some decisions might require Council of Ministers or even CoR approval, Shahrستاني stressed that all technical and political players would be represented in the process.

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"We Need Your Help With the Kurds"

16. (C) Shahrستاني asked for EU and U.S. support to urge the Kurds to accept the more centralized system he envisages, rather than signing contracts directly with oil companies as a regional entity. He also stressed the importance of international oil companies (IOCs) adding their voice in support of this approach. The expertise to best develop Iraq's resources resides in the Ministry of Oil, Shahrستاني said, adding that, if other regions emulate the Kurdish region, they could end up competing with one another for investment. Development and maintenance of infrastructure such as pipelines that cuts across governorate boundaries would also be a problem in a highly fragmented system. Shahrستاني said that, as a measure of good faith, MoO has committed to moving ahead with some development and refinery projects in the Kurdish region, despite their being less economically feasible than larger scale projects in the south. Secretary Bodman promised the U.S. would make the case to both the Kurds and the IOCs, but cautioned that Shahrستاني should not expect the IOCs to make enthusiastic arguments that regional independence makes it difficult to conduct commercially viable operations. Citing a contrary example, most of the major oil companies are actively engaged in Alberta, Canada, under a Canadian regime based on a highly regionalized system of energy investment.

"What We Really Need..."

17. (SBU) In a separate meeting, Deputy Ministers of Oil Abdul Jabbar al-Waggaa, Motassim Akram, and Ahmed al-Shamaa, as well as Director General of Reservoir Development Nateq al-Bayati told Senior DOE Advisor Karen Harbert that, although Iraq appreciates offers to train Iraqi personnel, what MoO really needs are foreign trainers on the ground in Iraqi facilities for on-the-job assistance. Al-Waggaa

specifically mentioned exploration, production and seismic studies as priority areas. If security concerns preclude stationing foreign advisors at provincial sites, al-Waggaa asked for additional help on these subjects with experts to be located in Baghdad or, at the very least, be made available from abroad by VTC. MoO also needs individuals with actual industry rather than academic experience in order to provide concrete practical guidance when problems occur. Al-Waggaa cited foreign companies' unwillingness to send in their own people for installations, commissioning and follow-up maintenance, often leaving Iraqi equipment down for months because relatively simple problems go unrepaired.

¶18. (SBU) Al-Waggaa also complained about Iraq's procurement system that stymies MoO's authority to purchase relatively small but essential items to complete projects or carry out repairs. Because any purchase of over \$3 million must be approved by the GOI contracts committee -- itself a response to widespread corruption within the government procurement system -- projects languish every time an unforeseen need cannot be immediately addressed. As an example, al-Waggaa mentioned that MoO construction of the new crude oil pipeline to al-Faw has been slowed by MoO's inability to purchase marsh buggies that can transport crews and material to the work sites. In another example, one of the three generators that independently power pumping at the Rumailah fields (the field that produces the majority of Iraq's crude oil exports) has been inoperable for nine months because MoO is unable to procure the part required for repair. He asked that a small fund of "several million dollars" be made available, even under U SG control, for the purchase of these "bits and pieces" that are so essential to keep the oil infrastructure up and running.

¶19. (C) Al-Waggaa stressed that frequent project delays make it all but impossible for MoO to make realistic production plans. He noted, but said he would not dwell on, MoO's unhappiness with USG contractor delays in carrying out USG-funded projects. He also emphasized that security concerns are frightening off potential bidders on MoO contracts. Al-Waggaa said that MoO hopes to make a positive example of the USG project to re-work 60 wells in the south, and asked for USG assistance in obtaining MNF-I security support in west and north Rumailah. "Everyone is watching this project," al-Waggaa said. "It will set the precedent."

¶10. (U) DOE has cleared this message.

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